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FOR IMMEDIATE RELEASE

November 15, 2007

CONTACT: Lynne Randolph

DMHC

(916) 445-7442

**Department of Managed Health Care fines Health Net for not disclosing
bonus program for employees considering cancellation of health policies**

Existence of program comes to light following media reports

(Sacramento) – The California Department of Managed Health Care (DMHC) has fined Health Net \$1 million for failing to disclose information on two separate occasions about a bonus program paid to employees considering cancellation of health policies.

“Just as health plans require applicants to be truthful about their health history when applying for coverage, the DMHC requires health plans to provide full information to regulators,” said Cindy Ehnes, Director of the DMHC. “Through the DMHC, the public must have confidence that if health plans do not cooperate with official investigations or do not follow the law, action will be swift.”

Under California law, the DMHC is charged with overseeing and regulating health plan operations. Plans can be subject to disciplinary action by the director if they fail to fully and openly disclose information to the DMHC.

Since late 2005, the DMHC has been investigating California health plans that offer individual health policies for engaging in the illegal practice of post-claims underwriting or rescinding health policies without proving that the applicant willfully misrepresented themselves on the health application.

These investigations have been conducted on five of the largest health plans in California, including Health Net. In the course of the Health Net investigation, the

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980 9th Street
Suite 500
Sacramento, CA 95814-2725
916-324-8176 Voice
916-322-9430 Fax

320 West 4th Street
Suite 880
Los Angeles, CA 90013-1105
213-620-2744 Voice
213-576-7183 Fax

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DMHC held on-site interviews on October 17 and again on November 6, 2007, at which investigators asked Health Net officials about the existence of any compensation or bonus programs. On both occasions, the answer was no.

However, on November 8, following an order from the Los Angeles Superior Court for Health Net to produce documents in a rescission lawsuit against the plan, *Bates v. Health Net*, the plan disclosed to regulators the existence of compensation based in part on rescission of health care policies paid to a company employee.

Although Health Net officials have agreed to pay the \$1 million fine for non-disclosure, the fine does not have any effect on other aspects of the DMHC's investigation into the rescission practices of the plan. The final survey results on Health Net rescission practices are expected in the early half of 2008.

In addition to the investigations, the DMHC is proposing new state regulations to protect consumers from illegal rescissions. These regulations will clarify existing law which requires health plans to show that a consumer willfully misrepresented his/her health history before a health care policy can be rescinded. The proposed regulations will also require that health plans complete medical underwriting before issuing a policy and that they fully investigate questionable responses on health history questionnaires. The DMHC will solicit public comment on the regulations during the early half of 2008.

The California Department of Managed Health Care is the only stand-alone watchdog agency in the nation, touching the lives of nearly 21 million enrollees. The DMHC has assisted more than 800,000 Californians through its 24-hour Help Center by resolving HMO problems while educating consumers on health care rights and responsibilities, and working closely with health plans to ensure a solvent and stable managed health care system.

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